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SHANGHAI, CHINA

April 20th, 1936.

Commissioner of Customs,  
Division of Customs Agents,  
Washington, D. C.

Sir:

There are enclosed for the information of the Bureau and other interested Departments copies of a report entitled "Illicit Opium Traffic and Japanese Under-Cover Activities in Pukien".

Respectfully,

*John J. Quinn*  
For U. S. Treasury Attaché.

Enclos.

APRIL 17, 1936.

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ILLEGIT OPIUM TRAFFIC AND JAPANESE UNMETH-DOU  
ACTIVITIES IN FORMOSA.

I. Persian Opium Shipped to Amoy.

On March 22nd, five boxes of Persian opium of fifty thousand dollars value, each containing forty packages, arrived at Amoy from Formosa by a Japanese steamship and were unloaded at the Tung Wen Wharf that afternoon at five p.m. and later sent to the Opium Company at Cheng Kuan Hooi (<sup>成川</sup> <sub>侯</sub>) under a guard of armed rosins. These boxes of Persian opium are a part of a consignment shipped to Formosa in 1930.

A brief history of the shipment is given in the following:

On June 16th 1930, news was sent out by Reuters that a strange ship was sailing for the Far East with a shipment of opium valued at, \$500,000, but the actual destination of the vessel was then a mystery.

Formerly the Japanese adopted a policy of opium control and gradual suppression in Formosa. At the inauguration of this policy, it was prescribed that only licensed addicts could smoke and that licenses were permitted to be issued only within the fixed period. At the time it was hoped that opium might be suppressed within twenty years, but as the amount of opium consumption decreased with the number of addicts, the financial resources of Formosa were deeply affected. With the approval of Japan, the Governor of Taiwan intended to issue one hundred thousand new licenses, and to meet this demand, four million yen worth of Persian opium was purchased in Europe. This step immediately aroused opposition from many sides and telegrams were sent to

the League of Nations for help in applying preventive measures. As a result, the number of new licenses was reduced to eighty ~~hundred~~; but meanwhile, the large quantity of Persian opium had already reached its destination.

A part of this opium was manufactured into morphine which was later sold in China by dumping methods, but the greater part of it remained untouched. It was not until after the Manchurian Incident that it was decided to sell this opium and appropriate the money for the expenses of Chinese traffickers to carry on campaigns of agitation. In 1935, the intrigues of Tu Chi-yun (杜季雲) in Fukien were totally financed in this way, but after his defeat, the remaining amount of opium was again left unused.

In 1936, three hundred thousand dollars worth of the opium stock was sold to Yeh Ching-ho (alias Paul Yip), the "King of Opium" in Fukien, for only one hundred thousand dollars. Nevertheless, an amount estimated at more than three million yen in value was still left.

In consideration of the past, this recent arrival of fifty thousand dollars worth of the Persian opium in Amoy should not be considered only as a case of opium smuggling but also as a prelude to forthcoming under-cover activities.

#### II. Cheap Sale Of Persian Opium In Foochow.

The Persian red opium is sold at only 2.30 per tael in Foochow, the lowest price to be quoted in twenty years. This dumping policy is brought about by two large opium traffickers named Cheng and Yeh, influential members of the former Lu Tung (呂同) and Hui

Yung (永興) companies. By means of smuggling, they hope to frustrate all competitors and prevent the Provincial Government from carrying out its new plan for the control of opium sales and transportation.

III. Fukien's Progressive Law of Opium.

Owing to geographical conditions and the Japanese drug policy in South China, the opium suppression work in Fukien has not yielded any satisfactory results. As the business term of the Ban Yung Opium Monopoly Company (بان永興) will expire very soon, some opium traffickers have tried to open a new company under the name of Yuen Tung (元通) and thereby promise the Provincial Opium Suppression Supervisory Bureau to sell two hundred thousand taels of opium per month throughout the province and increase the amount of monthly sales to two hundred and fifty thousand taels three months after business begins. The new company planned to smuggle Persian Red opium for sale in Fukien. In view of the increased amount of opium sales as promised by the new company, the Provincial Supervisory Bureau was about to grant the right of opium monopoly to the former, but when these facts were made known to the old company, they asked the Bureau to return the security of one hundred and sixty thousand dollars and pay an indemnity of two hundred thousand dollars for the goods sold out on credit. As the Bureau cannot meet this demand of the old company, there is no hope for the organization of a new company. But if the aforesaid new company should be established and their plan carried out, the opium menace in Fukien would be aggravated instead of being alleviated.

IV. Peking's Major Economic Activities.

In spite of the control of the Peiping, the most important action in Peking is on the eve of revolution. According to information from reliable sources, the long rumored amount of three thousand guns from Foreign origins was days ago and was unloaded secretly at Hsien (宣) and Chingtu (淸都) . It was also learned that large quantities of ammunition have arrived at Hsien and Peking (京) together with a large amount of opium and morphine. Money obtained from the sale of the drugs will be appropriated for the expenses of the Peking autonomy Council.

V. Japanese and Formosa Miners Prohibited to Stay in Army.

Owing to the unlawful activities of the miners, and in view of the frequent protests of the Provincial Government, the Japanese Council posted a notice on March 19th to the effect that all miners are forbidden to stay in army. Japanese policemen were sent to Formosa hospitals and making demands with orders for their suspension for a short time and to inform them that business may be resumed later. The number of miners in army is approximately 2,000. An officer in a steamship company stated there were only three Formosa passengers ~~and two Japanese~~ in the last two days.

VI. Under-cover activities still in progress.

The so-called autonomy movement is being warmly supported by the Japanese Consulate in army and Canton. At the beginning of March, a Formosa spy named Hwang Hsiang-chi (黃向記) who had been recently sent to Canton for secret activities returned to army with

Li, a noted pirate, and Chen, another character of ill repute in Tsin-tow. It has been learned that they are to participate in the puppet military organization. On March 15th, after a secret talk among the secretaries of the Japanese Consulate, it was decided that the number of executive members in the Autonomy Council would be reduced to thirteen and the number of executive members in the Committee of Military Affairs would be unlimited and subject to an increase when necessary. The office of the Autonomy Council has been removed from the Chang Hua Hotel in Kulangsu to the neighbourhood of the Japanese Consulate. The financial resources of the Council are of three kinds: (1) the profit gained from the sale of smuggled goods and drugs, (2) the income tax of the various departments, and (3), the support of Japan. Large-scale drug companies are planned for establishment in Foochow, Amoy and Tsin-tow while branches are to be set up in Changchow (長洲), Chienschow (泉州), Chaochow (潮州) and Putien (莆田). Opium, morphine and heroin will constitute the main part of the drugs to be sold. According to an estimate, from the third month on net profits for each month will be seventy thousand dollars.

The next day following the Japanese coup d'etat of February 26th, witnessed a suspension of business in the financial market of Amoy. According to information from the Japanese Consulate, the aim of this coup d'etat was to replace the part cabinet by a military cabinet and to carry out reform measures. The young military group of Japan intend to take the whole of China at one stroke and to prepare for an immediate war against Soviet Russia so that Japan may be the only power in Asia.

VII. Foochow To Suppress Opium Dens and Gambling Houses

Operated By Formosans.

Most of the Formosans in Foochow are owners of brothels, pawnshops, smoking dens and gambling houses and make use of these places to carry on unlawful activities. In view of the frequent protests of the Chinese government, the Japanese Consulate has made a registration of the Formosans in Amoy and constructed a prison.

A notice has been given to the effect that any Formosan making trouble in Amoy may be arrested by Chinese police and sent to the Consulate for punishment. Imprisonment below three years shall be served in the new prison and that exceeding three years shall be subject to the Governor's Office of Taiwan. Gambling houses were ordered to be closed by the end of February, many of which have been changed into pawnshops.

The registration of opium addicts in Foochow has been completed with a number exceeding four thousand. According to the regulation, the registered addicts should go to the prepared opium shops to buy prepared opium and when buying it should present their licenses, however, there are many Formosan-owned smoking dens where the addicts may go to smoke without licenses; hence, the registration work has become a failure. Now the local Japanese and Chinese police are making arrangements for joint suppression of these Formosan opium dens.

The Formosan brothels often induce women of good reputation to be prostitutes. If they decline, threats of death follow. Pawnshops are all usurious, pawned articles being charged a daily interest rate of one per cent in addition to a redemption period limited to only one month.